

Audit Report

Berrien Mental Health Authority

October 1, 2003 – September 30, 2004



Office of Audit
Grand Rapids Regional Office
May 2008



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT – GRAND RAPIDS REGIONAL OFFICE
350 OTTAWA AVENUE, N.W.; GRAND RAPIDS, MI 49503-2343

JANET OLSZEWSKI
DIRECTOR

May 30, 2008

Dr. Linda Beushausen, Chairperson
Berrien Mental Health Authority Board of Directors
P.O. Box 547
Benton Harbor, Michigan 49023-0547
and
Mr. Allen R. Edlefson, Executive Director
Berrien Mental Health Authority Board of Directors
P.O. Box 547
Benton Harbor, Michigan 49023-0547
and
Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

CERTIFIED MAIL
7007 2560 0001 4595 0065

Dear Dr. Beushausen, Mr. Edlefson, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Berrien Mental Health Authority for the period October 1, 2003 through September 30, 2004.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in Attachment 9.3.2.1 of the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a

Dr. Beushausen, Mr. Edlefson, Ms. Olszewski
Page 2
May 30, 2008

bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and MDCH will implement the audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:

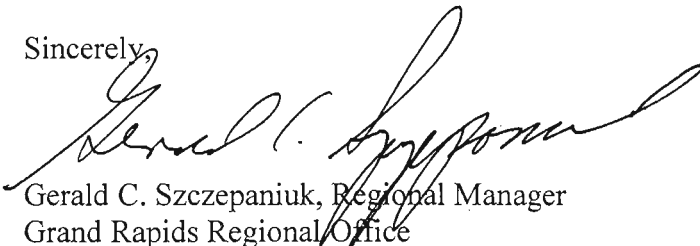
Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Halverson, Manager
Revenue Operations Section
Bureau of Finance (Accounting Division)
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,



Gerald C. Szczepaniuk, Regional Manager
Grand Rapids Regional Office
Office of Audit

TABLE OF CONTENTS

	<u>Page</u>
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	2
Scope and Methodology	3

Conclusions, Findings and Recommendations

<u>Contract and Best Practice Guidelines Compliance</u>	3
1. Lack of Supporting Documentation for Resident Funds	3
2. Negative Balances in Individual Resident Fund Accounts.....	4
3. Unrecorded Interest Earned by the Resident Fund Account.....	5
4. Subcontracts Not Properly Executed	6
<u>Financial Reporting</u>	7
5. Incorrect Reporting of Depreciation Expense for Current Year Asset Acquisitions.....	7
6. Improper Accounting and Reporting Method for Equipment Purchases.....	8
<u>MDCH's and PIHP's Share of Costs and Balance Due MDCH</u>	10

Schedules

Schedule A - Financial Status Report – FYE 9/30/2004	11
Schedule B - Explanation of Audit Adjustments - FYE 9/30/2004.....	16
Schedule C - Contract Reconciliation and Cash Settlement Summary - FYE 9/30/2004	18
Corrective Action Plans	20

DESCRIPTION OF AGENCY

The Berrien Mental Health Authority (BMHA) was established in 1963 and operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. BMHA became a community mental health authority in 1999 under the provisions of the Mental Health Code, Section 330.1205 of the Michigan Compiled Laws.

The BMHA provides outpatient, partial day, residential care, prevention, case management and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Berrien County.

The BMHA administrative office is located in the city of Benton Harbor. The BMHA board is comprised of 12 members who reside in Berrien County and are appointed for three-year terms.

FUNDING METHODOLOGY

Effective October 1, 2002, Summit Pointe (Calhoun County) CMH began operations as a Prepaid Inpatient Health Plan (PIHP) operating as Venture Behavioral Health. Included in this partnership are BMHA and four other community mental health organizations. The PIHP contracted with MDCH for Medicaid funding under a Medicaid Managed Specialty Supports and Services Contract (MMSSSC). MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to the PIHP. The PIHP passed the Medicaid funds on to the affiliated community mental health organizations under a separate “Medicaid Subcontracting Agreement” (MSA) based on their individual PEPM determinations. Under the MSA, BMHA is also subject to the terms and conditions of the MMSSSC, Mental Health Code, and applicable state and federal laws. BMHA received approximately \$20.5 million of Medicaid funding from the PIHP in FYE 2004.

BMHA contracted with MDCH under a Managed Mental Health Supports and Services Contract (MMHSSC) for FYE 2004. This provided State General Funds (GF) for providing mental health and developmental disability supports and services to individuals with serious mental illness,

serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code. BMHA received approximately \$4.9 million of GF funding in FYE 2004.

BMHA also received special and/or designated funds, fee for services funds, MI Child capitated funds, and Adult Benefit Waiver (ABW) capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. The ABW provides health care benefits for Michigan's childless adult residents with income at or below 35% of the Federal Poverty Level. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH provided the funding for the MICHild and ABW programs by capitated payments based on a Per Eligible Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of the review was to assess the agency's performance relative to the requirements and best practice guidelines set forth in the contracts; to determine whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to determine MDCH's and the PIHP's share of costs in accordance with applicable requirements and agreements. Following are the specific objectives of this review:

Audit Objectives:

1. To assess BMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.
2. To assess BMHA's effectiveness and efficiency in reporting their financial activity in accordance with contractual requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.
3. To determine MDCH's and the PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to or from BMHA.

SCOPE AND METHODOLOGY

We examined BMHA's records and activities for the period October 1, 2003 through September 30, 2004. We reviewed and discussed the internal control questionnaire, completed by BMHA's finance officer, to analyze the strength of the controls for the proper accounting of revenues and expenditures, procurement and other contracting procedures, reporting, claims management and risk financing. Discussions were held throughout the audit to update BMHA's finance officer and other management personnel on the progress of the audit. BMHA's policies and procedures were also reviewed. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status reports (FSRs) in compliance with contractual reporting requirements and applicable accounting standards. We performed our audit procedures from December 2005 through March 2006.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess BMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

Conclusion: BMHA was generally effective and efficient in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. However, our assessment disclosed exceptions with respect to the proper handling of Resident Funds (Findings 1-3), the lack of valid, enforceable contracts signed prior to the contract coverage period (Finding 4), and financial reporting (Findings 5-6).

Finding

1. Lack of Supporting Documentation for Resident Funds

BMHA did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

The review of resident funds held in trust yielded an audit recommendation for improvements in the internal control procedures. The internal policy and procedures were not being followed in all cases. Invoices for consumer purchases and other purchase documentation necessary to support the expenditure of consumer funds were not always given to the individual responsible for maintaining the consumer fund accounts.

Licensing Rule 400.14315, Handling of Resident Funds and Valuables, sub-section (1), states, "...Upon a request from a resident or the resident's designated representative, a licensee may accept a resident's funds and valuables to be held in trust with the licensee. ..." Sub-section (2) states, "...The care of any resident funds and valuables that have been accepted by a licensee for safekeeping shall be treated by the licensee as a trust obligation. ..." Sub-section (13) states, "A licensee shall provide a complete accounting, on an annual basis and upon request, of all resident funds and valuables which are held in trust." The residents' funds should be safeguarded to ensure that all funds are accounted for and available for patients' use. The resident funds are for those BMHA clients for whom BMHA is the representative payee for Social Security or SSI.

Recommendation

We recommend BMHA adopt proper internal control policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Finding

2. Negative Balances in Individual Resident Fund Accounts

BMHA distributed more funds than had been deposited into resident fund accounts resulting in negative balances in individual consumer accounts.

Several individual resident accounts had negative balances. Most of the "negative balance" accounts were short-term in nature and resulted from BMHA issuing a check for the resident's share of their residential housing, usually due on the first of the month, prior to the receipt of their SSI, SSA or other income checks. However, several of the resident fund accounts were

long-term “negative balance” accounts that had been in arrears and unchanged for at least a year. Consequently, some residents’ funds were used to benefit other residents in violation of Licensing Rule 400.14315, subsection (9), which states, “A resident’s account shall be individual to the resident.” Also, these long-term “negative balances” resulted in a reduction of the interest income earned on the resident funds that was to be distributed to those residents having a positive balance in their trust accounts which is in violation of the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

Recommendation

We recommend BMHA adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Finding

3. Unrecorded Interest Earned by the Resident Fund Account

BMHA did not properly allocate the interest income earned by the Resident Funds Account to the individuals with funds held in trust which is in violation of the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

BMHA posted the interest income earned on the Resident Funds Account to a separately identified ledger card on a monthly basis. Any bank service charges or check charges were also posted to this ledger card. At the end of the fiscal year, the net balance was transferred to the general operating funds account of BMHA. This is in violation of the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 (5) Handling of Resident Funds and Valuables that states in pertinent part, “...All resident funds, which includes bank accounts, shall be kept separate and apart from all funds and monies of the licensee. Interest and dividends earned on resident funds shall be credited to the resident.”

Recommendation

We recommend BMHA adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Finding

4. Subcontracts Not Properly Executed

BMHA did not properly execute subcontracts with individuals, contractors and other organizations providing mental health services to covered individuals of BMHA as required by contracts and federal regulations.

A review of approximately 30% of the BMHA subcontracts with individuals, contractors and other organizations providing mental health services to covered individuals was performed. None of the subcontracts had been properly executed in a timely manner prior to the start of the contract period. However, all services provided by the contractors prior to signing the subcontracts were paid for by BMHA.

The MMHSSC, Part II, Section 6.4.1 and the MMSSSC, Part II, Section 6.4.2, allow BMHA to subcontract for the provision of any of the services specified in the contracts, but BMHA is held solely and fully responsible to execute all provisions of the contracts. According to the contract provisions, BMHA must ensure that all subcontract arrangements clearly specify the type of services being purchased as well as many other requirements including, but not limited to, referrals, authorization, access standards, reporting, and payment arrangements. Furthermore, Federal regulation 42 CFR 434.6 provides general requirements for all contracts and subcontracts. Section 434.6(b) states, in pertinent part, “all subcontracts must be in writing and fulfill the requirements of this part that are appropriate to the service or activity delegated under the subcontract.”

Recommendation

We recommend BMHA adopt policies and procedures to ensure adherence to the pertinent rules regarding the proper execution of all service contracts as required by contract and federal regulations.

FINANCIAL REPORTING

Objective 2: To assess BMHA's effectiveness and efficiency in reporting their financial activity in accordance with contractual requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: BMHA was generally effective and efficient in reporting their financial activity in FYE 2004 as required by contractual requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards. However, we found exceptions in the following areas: incorrect reporting of depreciation expense for current year asset acquisitions (Finding 5) and directly expensing fixed assets acquired (Finding 6).

Finding

5. Incorrect Reporting of Depreciation Expense for Current Year Asset Acquisitions

BMHA incorrectly reported the depreciation expense for current year asset acquisitions in violation of contract and OMB Circular A-87 provisions.

Section 6.6.1 of the MMSSSC and the MMHSSC, states, in pertinent part:

The [PIHP/CMHSP] shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The [PIHP/CMHSP] will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The [PIHP/CMHSP] will use the principles and standards of OMB Circular A-87 for determining all costs...reported on the financial status report.

OMB Circular A-87, Attachment B, Section 11. Depreciation and use allowances, states, in part,

- a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowance...*
- d. Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved...*

In the year-end reconciliation of revenues and expenditures used in the preparation of the FSR, the total depreciation expense claimed exceeded the allowable depreciation expense calculated on the lapse schedules. When calculating depreciation to be included on the FSR, all current year asset additions were assigned a five year estimated life. However, useful lives reported in the Estimated Useful Lives of Depreciable Hospital Assets, Revised 1998 Edition from the American Hospital Association (AHA guidelines) were longer. Accordingly, excess depreciation expense was reported on the FSR. It was also noted that the lapse schedule did not include the cost of two vans purchased in September 2004. After adding depreciation expense for the two vans erroneously excluded, and recalculating depreciation expense based on useful lives established by the AHA guidelines, we determined that depreciation expense was overstated by \$16,292.

Audit adjustments removing \$16,292 from allowable expenditures are shown on Schedules A and B.

Recommendation

We recommend BMHA implement policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with contractual and OMB Circular A-87 provisions.

Finding

6. Improper Accounting and Reporting Method for Equipment Purchases

BMHA treated the capital asset purchase of additional emergency generator circuits as an expense in violation of contract and OMB Circular A-87 provisions.

Section 6.6.1 of the MMSSSC and the MMHSSC, states, in pertinent part:

The [PIHP/CMHSP] shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The [PIHP/CMHSP] will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The [PIHP/CMHSP] will use the principles and standards of OMB Circular A-87 for determining all costs...reported on the financial status report.

OMB Circular A-87, Attachment B, Section 11. Depreciation and use allowances, states, in part,

- a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowance...*

OMB Circular A-87, Attachment B, Section 15, states,

- a.(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000.*
- b.(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.*

The purchase and installation cost of additional generator circuits for the new emergency generator was improperly included in the current year expenses. The cost should have been capitalized and depreciated over the estimated useful life. The cost of this capital asset (\$6,464) will be removed from current operating expenses reported on the FSR. The allowable depreciation expense for these additional circuits (\$162) was included in the audit adjustment for Finding #5.

Audit adjustments reflecting a reduction of \$6,464 for capital purchases are shown on Schedules A and B.

Recommendation

We recommend BMHA implement policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with contract and OMB Circular A-87 provisions.

MDCH's and PIHP's SHARE OF COSTS AND BALANCE DUE MDCH

Objective 3: To determine MDCH's and the PIHP's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from BMHA.

Conclusion: MDCH's obligations for FYE 9/30/2004 (excluding the MICHild capitated funds, MDCH Earned Contracts, Children's Waiver funds, and ABW capitated funds) after audit adjustments is \$4,903,441. After considering advances and prior settlements, there is no additional liability incurred by either MDCH or BMHA. The net result of the audit adjustments is a decrease in the required Internal Service Fund payment for Risk Corridor expenditures of \$4,968.

Additionally, the net result of the Managed Care related audit adjustments, (\$16,088), as shown on Schedule A – Expenditures, Section D 3, will require a re-settlement of year end Managed Care Expenses between BMHA and the PIHP.

The reduction in the required ISF payment requires that the ISF fund be replenished. Since \$4,968 in ISF funds were used for General Fund expenditures that have been disallowed by audit adjustments, local funds in the amount of \$4,968 must be used to replenish the ISF account. The use of Medicaid or General Fund monies to replenish ISF funds that were used for unallowable expenditures is prohibited.

Berrien Mental Health Authority
Schedule A
Financial Status Report
October 1, 2003 through September 30, 2004

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A	Revenues Not Otherwise Reported	\$ -	\$ -	\$ -
B	Substance Abuse Total	\$ -	\$ -	\$ -
C	Earned Contracts (non DCH) Total	\$ 20,842,294	\$ -	\$ 20,842,294
	1 CMH to CMH	\$ -	\$ -	\$ -
	2a Other – MH/DD	\$ 314,231	\$ -	\$ 314,231
	2b Other – SA	\$ -	\$ -	\$ -
	3 Medicaid Managed Care – CMHSP Affiliate	\$ 20,528,063	\$ -	\$ 20,528,063
D	MI Child - Mental Health	\$ 27,078	\$ -	\$ 27,078
D1	Adult Benefit Waiver	\$ 734,713	\$ -	\$ 734,713
E	Local Funding Total	\$ 1,038,212	\$ -	\$ 1,038,212
	1 Special Fund Account (226(a))	\$ 451,318	\$ -	\$ 451,318
	2 Title XX Replacement	\$ 16,697	\$ -	\$ 16,697
	3 All Other	\$ 570,197	\$ -	\$ 570,197
F	Reserve Balances - Planned for use	\$ 1,086,478	\$ -	\$ 1,086,478
	1 Carry forward – Section 226(2)(b)(c)	\$ -	\$ -	\$ -
	2 Medicaid Savings – MH/DD	\$ 876,033	\$ -	\$ 876,033
	3 Internal Service Fund – Abatement	\$ -	\$ -	\$ -
	4b State GF Internal Service Fund – Risk Corridor	\$ 210,445	\$ -	\$ 210,445
	5 Other (205(4)(h))	\$ -	\$ -	\$ -
	6 Stop/loss Insurance	\$ -	\$ -	\$ -
G	DCH Earned Contracts Total	\$ 445,428	\$ -	\$ 445,428
	1 PASARR	\$ 312,740	\$ -	\$ 312,740
	2 Block Grant for CMH Services	\$ -	\$ -	\$ -
	3 DD Council Grants	\$ -	\$ -	\$ -
	4 PATH/Homeless	\$ 85,504	\$ -	\$ 85,504

Berrien Mental Health Authority
Schedule A
Financial Status Report
October 1, 2003 through September 30, 2004

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other DCH Earned Contracts	\$ 47,184	\$ -	\$ 47,184
 H Gross Medicaid Total	 \$ -	 \$ -	 \$ -
1 Medicaid - Specialty Managed Care	\$ -	\$ -	\$ -
2 Medicaid - Children's Waiver Total	\$ -	\$ -	\$ -
 I Reimbursements Total	 \$ -	 \$ -	 \$ -
1 1 st and 3 rd Party	\$ -	\$ -	\$ -
2 SSI	\$ -	\$ -	\$ -
 J State General Funds Total	 \$ 4,903,441	 \$ -	 \$ 4,903,441
1 CMH Operations	\$ 3,869,598	\$ -	\$ 3,869,598
2 Categorical Funding	\$ 16,271	\$ -	\$ 16,271
3 State Services Base	\$ 1,017,572	\$ -	\$ 1,017,572
4 DCH Risk Authorization	\$ -	\$ -	\$ -
5 Residential D.C.W.	\$ -	\$ -	\$ -
 K Grand Total Revenues	 \$ 29,077,644	 \$ -	 \$ 29,077,644
 L Estimated MDCH Obligation (D+D1+H+J)	 \$ 5,665,232	 \$ -	 \$ 5,665,232

Berrien Mental Health Authority
Schedule A
Financial Status Report
October 1, 2003 through September 30, 2004

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A Gross Total Expenditures	\$ 28,643,904	\$ (22,756)	\$ 28,621,148
B Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	\$ -	\$ -	\$ -
2 Other	\$ -	\$ -	\$ -
D Earned Contracts (Non MDCH) Total	\$ 20,963,157	\$ (17,002)	\$ 20,946,155
1 CMH to CMH	\$ -	\$ -	\$ -
2a Other Earned Contracts – MH/DD	\$ 663,787	\$ (914)	\$ 662,873
2b Other Earned Contracts – S/A	\$ -	\$ -	\$ -
3 Medicaid Managed Care – Affiliate	\$ 20,299,370	\$ (16,088)	\$ 20,283,282
E MI Child - Mental Health	\$ -	\$ -	\$ -
F Local Total	\$ 538,117	\$ -	\$ 538,117
1 Local Cost for State Provided Services	\$ 153,619	\$ -	\$ 153,619
2 Other Not Used as Local Match	\$ -	\$ -	\$ -
3 Affiliate Contribution of Local Funds to PIHP	\$ 384,498	\$ -	\$ 384,498
G Expenditures From Reserve Balances	\$ 876,033	\$ -	\$ 876,033
1 Carry forward - Sec 226(2)(b)(c)	\$ -	\$ -	\$ -
2 Medicaid Savings – MH/DD	\$ 876,033	\$ -	\$ 876,033
3 Internal Service Fund	\$ -	\$ -	\$ -
4 Other (205(4)(h))	\$ -	\$ -	\$ -
5 Stop/Loss Ins.	\$ -	\$ -	\$ -

Berrien Mental Health Authority
Schedule A
Financial Status Report
October 1, 2003 through September 30, 2004

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H MDCH Earned Contracts Total	\$ 445,428	\$ -	\$ 445,428
1 PASARR	\$ 312,740	\$ -	\$ 312,740
2 Block Grant for CMH Services	\$ -	\$ -	\$ -
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 85,504	\$ -	\$ 85,504
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other MDCH Earned Contracts	\$ 47,184	\$ -	\$ 47,184
I Matchable Services (A - (B through H))	\$ 5,821,169	\$ (5,754)	\$ 5,815,415
J Payments to MDCH for State Services	\$ 1,198,399	\$ -	\$ 1,198,399
K Specialty Managed Care Service Total	\$ -	\$ -	\$ -
1a 100% MDCH Matchable Services – MH/DD	\$ -	\$ -	\$ -
1b 100% MDCH Matchable Services – SA	\$ -	\$ -	\$ -
2 SSI and Other Reimbursements	\$ -	\$ -	\$ -
3 Net MDCH Share for 100% Services	\$ -	\$ -	\$ -

Berrien Mental Health Authority
Schedule A
Financial Status Report
October 1, 2003 through September 30, 2004

L	GF Categorical and Formula Services Total	\$ 4,272,791	\$ (5,369)	\$ 4,267,422
1	100% MDCH Matchable Services	\$ 692,226	\$ (1,355)	\$ 690,871
2	All SSI and Other Reimbursements	\$ -	\$ -	\$ -
3	Net GF and Formula for 100% Services	\$ 692,226	\$ (1,355)	\$ 690,871
4	90/10 Matchable Services	\$ 3,580,565	\$ (4,014)	\$ 3,576,551
5	Reimbursements	\$ -	\$ -	\$ -
6	10% Local Match Funds	\$ 358,057	\$ (401)	\$ 357,656
7	Net GF and Formula for 90/10 Services	\$ 3,222,509	\$ (3,613)	\$ 3,218,896
8	Total MDCH GF and Formula	\$ 3,914,735	\$ (4,968)	\$ 3,909,767
L.a	MI Child Mental Health	\$ 1,682	\$ -	\$ 1,682
1	MI Child Mental Health Capitation – Medicaid Only	\$ 931	\$ -	\$ 931
2	MI Child Mental Health – MDCH GF Operations Base	\$ 751	\$ -	\$ 751
L.b	Adult Benefit Waiver – MH	\$ 348,297	\$ (385)	\$ 347,912
1	Adult Benefit Waiver – Medicaid and State Match	\$ 348,297	\$ (385)	\$ 347,912
2	Adult Benefit Waiver– MDCH GF Operations Base	\$ -	\$ -	\$ -
M	Children's Waiver – Total	\$ -	\$ -	\$ -
1	Medicaid - Federal Share	\$ -	\$ -	\$ -
2	Other Reimbursements	\$ -	\$ -	\$ -
3	Net State Share (M-M1-M2)	\$ -	\$ -	\$ -
4	Total MDCH Share Children's Waiver	\$ -	\$ -	\$ -
N	Unobligated Spending Authority Total	\$ -	\$ -	\$ -
1	DCH Risk Authorization	\$ -	\$ -	\$ -
2	All Other	\$ -	\$ -	\$ -
O	Total Local Match Funds	\$ 896,174	\$ (401)	\$ 895,773
P	Total MDCH Share of Expenditures	\$ 5,463,113	\$ (5,353)	\$ 5,457,760

Schedule B
Explanation of Audit Adjustments
October 1, 2003 to September 30, 2004

Gross Total Expenditures **(\$22,756)**

(\$16,292) to remove the excess depreciation expense reported for current year capital asset additions. (See Finding 5)

(\$6,464) to remove the total of capital assets expensed in error. (See Finding 6)

Earned Contracts (Non-DCH) Total **(\$17,002)**

(\$12,552) to remove the excess depreciation expense reported for current year capital asset additions. (See Finding 5)

(\$4,450) to remove the total of capital assets expensed in error. (See Finding 6)

Matchable Services
GF Categorical and Formula Services Total **(\$5,369)**

(\$3,538) to remove the excess depreciation expense reported for current year capital asset additions. (See Finding 5)

(\$1,831) to remove the total of capital assets expensed in error. (See Finding 6)

Adult Benefits Waiver - MH

(\$385)

(\$202) to remove the excess depreciation expense reported for current year capital asset additions. (See Finding 5)

(\$183) to remove the total of capital assets expensed in error. (See Finding 6)

Local Funding

(\$401)

To reduce the Local Match Funds required based upon the audit findings in the GF Categorical and Formula Services calculations.

Berrien Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2003 through September 30, 2004

I. State/General Fund Formula Funding

	Authorization	MDCH Expense
A GF/Formula - State and Community Managed Programs		
1 State Managed Services	\$ 1,017,572	\$ 1,198,399
2 MDCH Risk Authorization - MDCH Approved for Use	\$ -	\$ -
3 Community Managed Services	\$ 3,885,869	\$ 3,910,518
4 Total State and Community Programs - GF/Formula Funding	\$ 4,903,441	\$ 5,108,917
 B Categorical, Special and Designated Funds		
1 Respite Grant (Tobacco Tax)	\$ 16,271	\$ 16,271
2 Grant Pickup – Prevention	\$ -	\$ -
3 Total Categorical, Special and Designated Funds	\$ 16,271	\$ 16,271
 C Subtotal-GF/Formula Community and State Managed Programs	\$ 4,887,170	\$ 5,092,646

	Formula Funds
II. Shared Risk Arrangement	
A Operating Budget – Exclude Categorical Funding	\$ 4,887,170
 B MDCH Share - Exclude Categorical Funding	\$ 5,092,646
 C Surplus (Deficit)	\$ (205,476)
 Risk Band – 5% of Operating Budget (A*5%)	\$ 244,359

Berrien Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2003 through September 30, 2004

	MDCH Share	Carryforward	Total	Grand Total
III. Cash Settlement				
A MDCH Obligation				
1 GF/Formula Funding (Net of Categorical)	\$ 4,887,170	\$ -	\$ 4,887,170	
2 Categorical - MDCH Obligation	\$ 16,271	\$ -	\$ 16,271	
3 Total - MDCH Obligation				\$ 4,903,441
B Advances – Prepayments				
1 GF/Formula Funding - (Include MDCH Risk Authorization)			\$ 3,869,598	
2 Purchase of Services			\$ 1,017,572	
3 Categorical Funding			\$ 16,271	
4 Total Prepayments				\$ 4,903,441
C Balance Due MDCH				\$ -
D Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			\$ 1,198,399	
Actual Payments to MDCH			\$ 1,198,399	
Balance Due MDCH				\$ -
E Net Balance Due MDCH				\$ -
Prior Settlement				\$ -
Balance Due to MDCH (CMH)				\$ -

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Lack of Supporting Documentation for Resident Funds**

BMHA did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services (Licensing Rules).

Recommendation: Adopt internal control policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Comments: The BMHA agreed with the recommendation of the MDCH auditors. The BMHA no longer maintains resident funds though.

Corrective Action: The BMHA no longer maintains resident funds.

**Anticipated
Completion Date:** Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Negative Balances in Individual Resident Fund Accounts**

BMHA distributed more funds than had been deposited into resident fund accounts resulting in negative balances in individual consumer accounts in violation of the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

Recommendation: Adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Comments: The BMHA agreed with the recommendation of the MDCH auditors. The BMHA no longer maintains resident funds though.

Corrective Action: The BMHA no longer maintains resident funds.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: **Unrecorded Interest Earned by the Resident Fund Account**

BMHA did not properly allocate the interest income earned by the Resident Funds Account to the individuals with funds held in trust accounts in violation of the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

Recommendation: Adopt policies and procedures to ensure adherence to the pertinent rules regarding the handling and safekeeping of resident funds as detailed in the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer & Industry Services, R 400.14315 Handling of Resident Funds and Valuables.

Comments: The BMHA agreed with the recommendation of the MDCH auditors. The BMHA no longer maintains resident funds though.

Corrective Action: The BMHA no longer maintains resident funds.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 6

Finding: **Subcontracts Not Properly Executed**

BMHA did not properly execute subcontracts with individuals, contractors and other organizations providing mental health services to covered individuals of BMHA as required by contracts and federal regulations.

Recommendation: Adopt policies and procedures to ensure adherence to the pertinent rules regarding the proper execution of service contracts as required by contracts and federal regulations.

Comments: The MDCH did not issue a MDCH/PIHP Master Contract for Medicaid funds or the MDCH/CMHSP Master Contract for General Funds for the contractual period from October 1, 2002 through September 30, 2004 until September 2003. In mid-January, 2007 the MDCH finally issued a MDCH/CMHSP Master Contract for General Funds for the period October 1, 2005 through September 30, 2007.

Since terms and conditions in a CMHSP's service subcontract are subject to terms and conditions in a MDCH/CMHSP Master Contract, the MDCH's failure to deliver a Master Contract in a timely manner impacts a CMHSP's ability to execute its service subcontracts in a timely manner.

The BMHA agrees to the recommendations of the MDCH auditors.

Corrective Action: The BMHA has refined its contracting procedures in response to Finding #4 of the MDCH auditors.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 5

Page Reference: 7

Finding: **Incorrect Reporting of Depreciation Expense for Current Year Asset Acquisitions**

BMHA incorrectly reported the depreciation expense for current year asset acquisitions in violation of contract and OMB Circular A-87 provisions.

Recommendation: Adopt policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with contractual and OMB Circular A-87 provisions.

Comments: The BMHA agrees to the recommendation of the MDCH auditors.

Corrective Action: The BMHA has refined its procedures in response to Finding #5 of the MDCH auditors.

Anticipated Completion Date: Already completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 6

Page Reference: 8

Finding: Improper Accounting and Reporting Method for Equipment Purchases

BMHA treated the capital asset purchase of additional emergency generator circuits as an expense in violation of contract and OMB Circular A-87 provisions.

Recommendation: Adopt policies and procedures to ensure all capital asset purchases are capitalized and expensed in compliance with contract and OMB Circular A-87 provisions.

Comments: The BMHA agrees to the recommendation of the MDCH auditors.

Corrective Action: The BMHA has refined its procedures in response to Finding #6 of the MDCH auditors.

Anticipated Completion Date: Already completed.

MDCH Response: None.